



Jerry E. Abramson  
Mayor

26 Member  
Metro Council

The Office of Internal  
Audit provides independent,  
objective assurance and  
consulting services  
that adds value to and  
improves Louisville  
Metro Government.



# Office of Internal Audit

Animal Services

License Fee Revenue

# **Audit Report**

**Office of Internal Audit**

## **Animal Services**

### **License Fee Revenue**

**December 2004**



**Animal Services**

**License Fee Revenue**

## **Table of Contents**

<b>Transmittal Letter.....</b>	<b>2</b>
Scope and Opinion.....	2
Internal Control Rating.....	4
Introduction .....	5
Summary of Audit Results .....	5
<b>Observations and Recommendations.....</b>	<b>7</b>
#1 – Animal Licenses Computer System .....	8
#2 – Segregation of Duties .....	10
#3 – Monitoring and Reconciliation.....	11
#4 – Efficiency and Effectiveness .....	13
#5 – License Renewal Process.....	15



JERRY E. ABRAMSON  
MAYOR

KELLY DOWNARD  
PRESIDENT, METRO COUNCIL

LOUISVILLE, KENTUCKY  
OFFICE OF INTERNAL AUDIT

MICHAEL S. NORMAN, CIA  
CHIEF AUDIT EXECUTIVE

## Transmittal Letter

December 13, 2004

The Honorable Jerry E. Abramson  
Mayor of Louisville Metro  
Louisville Metro Hall

**Re: Audit of Animal Services License Fee Revenue**

### **Scope and Opinion**

We have examined the operating records and procedures of animal license fee revenue administered by the Metro Animal Services Department. The primary focus of the audit was the operational and fiscal administration of the activity. This included how Animal Services processes, records, and monitors the activity.

As a part of our examination, we performed an evaluation of the internal control structure. Our examination was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. In accordance with standards, appropriate parties were informed of any possible independence impairment issues, either real or perceived. It was determined that the auditor was free in fact and appearance from personal, external and organizational impairments to independence.

The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight.

The operating procedures for administering the license fee revenues for the sale of dog and cat licenses were reviewed through interviews with key personnel. The operational and fiscal administration of activity was reviewed. The scope and methodology of the areas reviewed will be addressed in the Observations and Recommendations section of this report. Our examination would not reveal all weaknesses because it was based on selective review of data.

The internal control rating for each area reviewed is on page 4. These ratings quantify our opinion regarding the internal controls used in managing the activity and identify areas requiring corrective action.

It is our opinion that the overall internal control structure for the Animal Services license fee procedures is weak. There were some specific problems noted that indicate the internal control structure could be more effective. Examples of the problems include the following.

- The computer system (Atracks) used to process license fee activity is inadequate. It does not produce accurate activity reports, which limits its usefulness as a reconciling tool.
- There is not adequate segregation of duties among personnel, especially in regards to receipt of payment, keying system transactions, and depositing of payments.
- Monitoring and reconciliation of license fee activity is inadequate. This lack of oversight does not adequately protect the revenue and weakens the reliability of internal reports and the financial statements.
- Metro personnel other than Animal Services are involved in the processing of animal license activity (i.e. sale of renewals and posting to financials). This limits Animal Services oversight and weakens accountability.

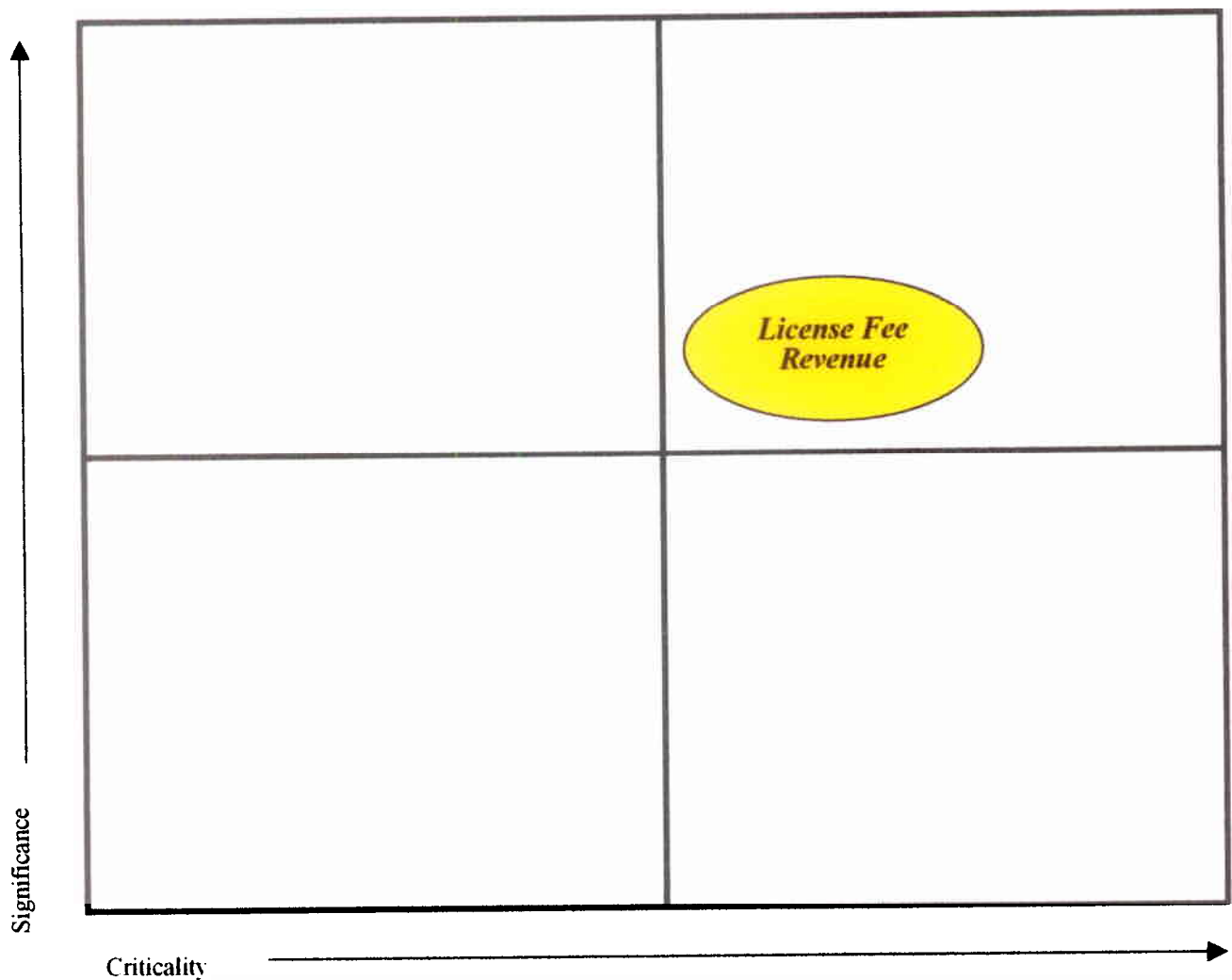
The implementation of the recommendations in this report will help improve the internal control structure and effectiveness of the Animal Services license fee administration.



Michael S. Norman, CIA  
Chief Audit Executive

cc: Louisville Metro Council Audit Committee  
Louisville Metro Council Members  
Deputy Mayors  
Secretary of the Cabinet for Public Works and Services  
Director of Metro Animal Services Department

# Internal Control Rating



<i>Legend</i>			
<b><u>Criteria Issues</u></b>	<b><u>Satisfactory</u></b> Not likely to impact operations.	<b><u>Weak</u></b> Impact on operations likely contained.	<b><u>Inadequate</u></b> Impact on operations likely widespread or compounding.
<b><u>Controls</u></b>	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
<b><u>Policy Compliance</u></b>	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
<b><u>Image</u></b>	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
<b><u>Corrective Action</u></b>	May be necessary.	Prompt.	Immediate.



## **Introduction**

The Louisville Metro Animal Services department was created by the Jefferson County Fiscal Court in accordance with Kentucky Revised Statutes to provide services that safeguard the public health and safety, to humanely house and care for animals in its charge, to protect the animals of the community from abuse and neglect, and to provide its citizens with information concerning responsible ownership.

Animal Services issues dog and cat licenses, as well as licenses for kennels, stables, and humane societies. The fiscal year 2004 operating budget for the Metro Animal Services was \$1,708,800, with \$587,400 budgeted for license fee revenue. This was a scheduled audit.

## **Summary of Audit Results**

### **I. Current Audit Results**

See Observations and Recommendations section of this report.

### **II. Prior Audit Issues**

The Office of Internal Audit has not previously audited the Animal Services license fee revenue.

### **III. Statement of Auditing Standards**

Our audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

### **IV. Statement of Internal Control**

We conducted a formal study of the internal control structure in order to obtain a sufficient understanding to support our final opinion.

### **V. Statement of Irregularities, Illegal Acts, and Other Noncompliance**

Our examination did not disclose any instances of irregularities, any indications of illegal acts, and nothing came to our attention during the examination that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

**VI. Views of Responsible Officials**

An exit conference was held at the Animal Services administrative office on October 21, 2004. Attending were Eric Blow and Kim Marburger representing Animal Services; Mike Norman, Mary Ann Wheatley and Wayne Pendleton representing Internal Audit. Final audit results were discussed.

The views of the Animal Services officials are included as responses in the Observations and Recommendations section of the report.



## Observations and Recommendations

### Scope

Key personnel were interviewed to obtain an understanding of the current procedures and practices for managing revenues from the collection of dog and cat license fees. The review focused on the operational and fiscal administration of the revenue and how activity is processed, recorded, and monitored.

A sample of license fees from six days was judgmentally selected during the period of January 1, 2004 to March 31, 2004. This included the license fees collected at Animal Services, as well license renewal fees collected by Emergency Medical Services (EMS). The deposit records, supporting documentation, and Metro Government financial system activity were reviewed to determine completeness, accuracy, compliance with guidelines and timeliness. The following concerns were noted.

There were several problems noted with the administration and processing of the Animal Services license fee activity. As a result, the internal control structure is weakened and its effectiveness impaired. The observations are as follows:

- #1 – Animal Licenses Computer System
- #2 – Segregation of Duties
- #3 – Monitoring and Reconciliation
- #4 – Efficiency and Effectiveness
- #5 – License Renewal Process

## #1 – Animal Licenses Computer System

All license fee activity, as well as other Animal Services activity, is recorded in the Atracks system. The Atracks system was developed in-house approximately five years ago and is used by both Animal Services and Emergency Medical Services (EMS) to record license fee activity. Several weaknesses were noted with the Atracks system and associated processes.

- Detailed information pertaining to license fee transactions is entered into the Atracks system, to include payment information. However, there is not a system report that totals transactions for the day in order to reconcile payments. Instead, all payments are entered again into a separate cash register in order to obtain reconciling totals for the day.
  - Animal Services personnel are not utilizing a void / return feature that is found on most cash registers. Instead, receipts that are produced in error are marked 'Void', and manual corrections are made to the end of the day register reading to adjust totals. Reading totals were adjusted for all six days reviewed.
- Reports generated from the Atracks system do not always contain accurate information. This limits the usefulness of the reports with regards to monitoring and reconciliation, and requires Animal Services personnel to maintain manual logs of activity to aid in daily reconciliations.
  - The Daily License List report run by Animal Services personnel shows all license tags issued for a particular day, to include the name of the employee entering the transaction, license number, customer name, address and phone number, and license amount. Weaknesses were noted with this report.
    - Animal Services personnel stated the license amount is often incorrect. The report may show a history amount or an amount that is not representative of anything.
    - Sometimes a license sold may not be listed on the report though the system will reflect that the license was actually issued. This occurred on three of six days reviewed.
  - EMS personnel process license *renewal* activity in the Atracks system. The reports they generate to reconcile activity for the day (Daily License Quantity and Amount report and Daily Cash Inflow Summary) are often manually corrected to reflect accurate totals. EMS personnel stated they are not able to make corrections in the Atracks system once a transaction has been keyed.

## Recommendations

Appropriate Animal Services personnel should take corrective action to address the issues noted. Specific recommendations include the following.

- ✓ Animal Services is aware of the limitations of the Atracks system and intends to purchase a new system that is more sophisticated and will better fit their needs. Animal Services should continue to actively pursue a new system so they may begin processing license fees in a more efficient and effective manner. Some features to look for in a new system include the following.
  - Ideally, a licensing system will provide sufficient monitoring and reconciliation reports that will allow it to act as a cash management instrument

as well. This would eliminate the duplicate process of entering payments into a cash register. No matter the system used, measures should still be taken to secure funds during daily processing (i.e. locked cash drawer).

- A system should have a void / return function that allows keypunch errors to be corrected. Security features should be in place that would allow only authorized individuals to perform this function, or at a minimum, supervisory personnel should closely monitor transactions.
  - All system reports should provide accurate information, and be presented in a useful manner. This may require some customization to standard system reports in order to best fit the needs of Animal Services. Animal Services personnel should work closely with system implementers to ensure the final product performs as intended. Manual logs of license activity should no longer be necessary.
  - Animal Services should ensure measures are in place for continued technical support of a new licensing system.
- ✓ Animal Services processes and procedures for issuing licenses may need to be reengineered to conform to a new system.
  - ✓ Animal Services may want to consult with Internal Audit prior to the implementation of a new licensing system to ensure internal controls have been adequately addressed.

#### *Metro Animal Services Response*

It is our conclusion that many of the problems identified are related to our inadequate software. A recent Request For Proposal for improved software programming generated only two vendor responses. We will be evaluating those proposals along with the Metro Department of Technology. Prior to any awarding of a contract, we will consult with the Office of Internal Audit.

## **#2 – Segregation of Duties**

There is not adequate segregation of duties for the processing of animal license fee revenue. Proper segregation of duties, which is an integral part of an effective internal control structure, means one person should not be responsible for all aspects of an activity. Specific issues include the following.

- One person could perform all of the following functions: process a transaction in the Atracks system and cash register (which includes receive a payment from a customer), run system and cash register closing reports / readings, reconcile payment receipts, and prepare bank deposits. This lack of segregation increases the risk that payments could be concealed or misappropriated for personal use without being detected.
  - Since all personnel involved in processing animal licenses may run a cash register reading, the key used to do this is kept in the cash register at all times.
- All Animal Services personnel involved in processing animal license transactions work from one cash register drawer. This process diminishes accountability over funds.

### **Recommendations**

Appropriate Animal Services personnel should take corrective action to address the issues noted. Specific recommendations include the following.

- ✓ The same individual should not process licenses, receive payments, run closing reports, reconcile activity, and prepare deposits. However, staff resource constraints do not always allow complete segregation. In these situations, additional compensating controls are needed. This includes monitoring and reconciliation activities that allow oversight by other personnel.
- ✓ Ideally, only supervisory personnel would have the system capabilities to run end of the day reconciliation reports. This would ensure that those directly involved in the receipt of funds would not be aware of activity totals, which could persuade them to make adjustments to ensure that cash on hand agrees with system totals.
- ✓ Each employee processing animal license transactions, to include relief personnel, should have their own cash drawer to work from to provide accountability over funds.

### **Metro Animal Services Response**

This issue is peripherally related to software, at this time we find it is not practical to dedicate one person to only one or all of these duties.

### **#3 – Monitoring and Reconciliation**

Key personnel, including supervisory staff, do not adequately monitor the license fee activity. In addition, revenue documentation is not properly reconciled. Monitoring and reconciliation are vital internal control components, and are necessary to help mitigate risks associated with inadequate segregation of duties. Specific concerns include the following.

- Animal Services provides participating veterinary clinics with a supply of license tags that they may issue to customers. Also, EMS is supplied with tags that they distribute to customers when license renewals are processed. Though Animal Services keeps a log of tags issued to each entity, they do not reconcile unused tags that are returned to them at the end of each year to ensure they received all money due them.
- There were some risks noted with regards to the cashiering function that could be mitigated with adequate monitoring and reconciliation.
  - The end of the day cash register reading (Z-reading) has sequential numbers noted on it that are continuous from reading to reading. Animal Services personnel are not verifying these numbers to ensure continuity and appropriateness. This could allow for unauthorized readings to be run and go undetected, thus increasing the risk of lost revenue due to concealment for personal use.
  - Funds are removed from the cash register at the end of each day and placed in the safe overnight without being reconciled. This increases the risk that funds could be removed without detection.
  - Although there is more than one employee present at the time funds are reconciled each morning, the actual count is performed by only one individual.
- Per Kentucky State Statute, a dog license fee should be paid to the State by the 15<sup>th</sup> of the month following a quarter. For the quarter reviewed, the payment was not made timely (22 business days late). It should be noted that this fee is no longer required as of July 1, 2004.

### **Recommendations**

Appropriate Animal Services personnel should take corrective action to address the issues noted. Specific recommendations include the following.

- ✓ A major component of any reporting system is proper reconciliation and monitoring. It is imperative that supervisory staff reviews information on a regular basis. This includes reconciliation of license tags, those retained by Animal Services as well as those distributed to other entities. All license tags should be accounted for as either issued to a customer or a part of Animal Services inventory. End of the year reconciliations should be performed and documented to ensure all un-issued tags have been properly returned to Animal Services. License fee revenue collected should agree with the number of tags issued.
- ✓ Supervisory personnel should also routinely monitor system reports and deposit activity, along with monitoring of internal records for completeness and adherence to policies and procedures.

- ✓ Ideally, with the purchase and implementation of a new licensing system, use of a cash register should no longer be necessary. Until then, proper monitoring and reconciliation is essential.
  - Animal Services supervisory personnel should routinely monitor register readings for sequential numbering. This will assist in the detection of unauthorized readings.
  - Cash should be reconciled at the end of each day and properly secured until deposited at a bank. Both the cashier and a second individual, preferably in a supervisory role, should perform the verification of funds. The verification should be documented and signed by both individuals to indicate agreement.
- ✓ Ultimately, transactions should be reconciled to the LeAP financial system to ensure the accurate and timely recording of activity.
- ✓ In order to compensate for inadequate segregation of duties, personnel independent of the actual processing of activity should be assigned reconciliation and monitoring responsibilities.
- ✓ Any discrepancies noted during routine monitoring activities should be thoroughly investigated and the outcomes properly documented.
- ✓ Though the quarterly license fee payment to the State is no longer required, care should be taken by Animal Services personnel to ensure all compliance requirements are met for any future mandates.

#### *Metro Animal Services Response*

Under our current system, it will be a protracted process to reconcile the veterinary issued licenses. The process we have devised calls for filing each individual clinic/veterinarian in a separate folder. We will implement this process in January 2005. As we close the calendar year, it may be well into February 2006 before all 2005 license sheets are presented to us. We will then compare those sheets with our records of licenses issued to each veterinarian. A telephone inquiry will follow to account for any tags not issued. This, and other monitoring and reconciliation issues, will be simplified and improved with the new software program.

#### **#4 – Efficiency and Effectiveness**

There are several opportunities for improvement in the processing of animal license fees. Specifics are noted below.

- Metro Finance Treasury Division personnel prepare the journal entries to post license revenue to the financial system. This is not an appropriate function of the Treasury Division. Additional concerns with this process include the following.
  - Animal Services and EMS billing personnel maintain daily documentation of animal license activity. The documentation is either accessed by or forwarded to Metro Finance Treasury personnel. Treasury in turn creates monthly spreadsheets of activity processed by each entity. The financial information from each spreadsheet is then summarized on a journal voucher for entry into the Metro financial system. This process is very cumbersome and inefficient, and increases the risk that information will not be carried forward appropriately from one document to the next.
  - For one of four days examined with veterinary payment activity, the revenue reported on the worksheet created by Animal Services did not agree with the amount carried forward to the monthly spreadsheet maintained by Treasury. It appears a deposit shortage, though immaterial, was not recorded on the Treasury spreadsheet, thus overstating revenue in the financial system.
  - Treasury has direct access to Animal Services network to access daily activity files. This weakens data integrity in that original source documents could be altered without Animal Services knowledge or approval.
  - For the three months reviewed, some of the financial coding noted on the monthly spreadsheet created by Treasury was incorrect (i.e. did not agree with Animal Services support documentation and was not a valid coding relationship). However, the transactions were rejected by the financial system and appropriate coding was input by General Accounting personnel.
- Per Metro Ordinance, for every license sold by a veterinary clinic, \$1.00 must be paid to the applicable clinic. Animal Services process for adhering to the ordinance could be improved.
  - Currently, veterinary clinics randomly submit payments to Animal Services for the full amount of animal license fees collected. Animal Services in turn pays each veterinary clinic the funds due them. This process is inefficient in that it requires unnecessary administrative effort and expense from Animal Services to pay an entity they just received a payment from.
  - The spreadsheet used by Animal Services to document licenses issued by each veterinary clinic could be improved. It currently does not tie the number of licenses issued to a specific date. This makes it very difficult to verify the amount paid to the clinics is appropriate, especially since the spreadsheet usually contains two months worth of data.
- Animal Services personnel enter transactions into the Atracks system under a specific mode to indicate whether the transaction was processed at Animal Services or whether it originated from a veterinary clinic. For four of six days examined, it appeared some transactions were keyed into the system under an incorrect mode.



### **Recommendations**

Appropriate Animal Services personnel should take corrective action to address the issues noted. Specific recommendations include the following.

- ✓ Animal Services is accountable for animal license activity and should prepare their own journal entries to record license fee revenue. This is not a function of the Finance Treasury Division and they should not have direct access to Animal Service's network and computer files. Other benefits to this approach include the following.
  - By removing Finance from this process, fewer spreadsheets should have to be prepared, thus reducing the risk of recording errors.
  - Animal Services could post their revenue on a timelier basis (i.e. daily or weekly instead of monthly).
  - It is more likely that funds will be posted to the proper financial coding since Animal Services is familiar with where their revenue is budgeted.

It should be noted that Metro Louisville is in the process of implementing new banking procedures. These procedures should help improve the efficiencies of Animal Services process for posting license fee revenue.

- ✓ With regards to the Ordinance that requires payment to veterinary clinics for animal licenses sold, Animal Services should consider revising their procedures. Since clinics are paying Animal Services for the license fees they collect, it would be more efficient if they would reduce this payment by the amount they are owed. The form the clinics submit to Animal Services to indicate tags issued could be modified slightly to reflect the reduction. This would eliminate administrative effort and expenses for Animal Services and provide immediate payment to the clinics.
- ✓ Under the current system, care should be taken by Animal Services personnel to ensure animal license transactions are entered into the system under the appropriate mode. This will help to distinguish between those transactions actually processed by Animal Services versus a veterinary clinic. Ideally, a new system will have a feature that distinguishes veterinary transactions upon entry into the system without requiring the keyer to change entry modes.

### **Metro Animal Services Response**

We are currently awaiting instructions from the Metro Finance Department concerning training on journal entries. Due to personal checks being written either directly to Metro Animal Services (MAS) or to the clinic, veterinarians as a whole are reluctant to adopt a process that involves retaining their portion of license fees from the payments submitted to MAS.

## **#5 – License Renewal Process**

There were some concerns noted with the processing of license fee renewals that are indicative of an operating environment with a weak internal control structure. Prior to merger of City and County Governments, license fee renewal activity was processed by Emergency Medical Services (EMS) billing personnel due to cash management issues at Animal Services. This practice is still in effect, though cash management issues have been addressed by Animal Services.

- It does not appear that Animal Services has any control or direct oversight over license renewal activity since it is administered at EMS.
- There is not adequate segregation of duties with regards to the processing of license fee renewals. One person receives payments, processes renewal transactions in the Atracks system, reconciles activity for the day, and prepares and deposits funds at the banking institution. This lack of segregation increases the risk that payments could be concealed or misappropriated for personal use without being detected.
- License renewal support documentation was missing for all six days reviewed. Specifically, the individual clerk reports (Daily Quantity and Amount Report) could not be located. Testing had to be performed using a Daily Cash Inflow Summary report which totals *all* activity processed by EMS personnel. However, this report's usefulness is limited since EMS personnel stated they often have to make manual adjustments to the report for it to reflect true activity processed for the day.
- EMS prepares two deposit slips for each daily deposit, as opposed to using a duplicate copy deposit slip. This increases the likelihood of errors since duplicate forms have to be completed.

### **Recommendations**

Animal Services should resume the responsibility of processing animal license renewals. They are the department that is ultimately accountable for this activity and ensuring that all guidelines, ordinances and such are adhered to. Resuming responsibility for this activity will more easily allow for proper oversight and monitoring. Animal Services management will need to evaluate the impact of taking renewal activity on and consider staff and service impact.

### **Metro Animal Services Response**

The Cabinet is aware of this problem. A short-term solution has not yet been identified. The issue will be reviewed in the FY 2006 budget process. The long-term solution will be accomplished through the construction of a new facility, incorporating all licensing activities at the department.